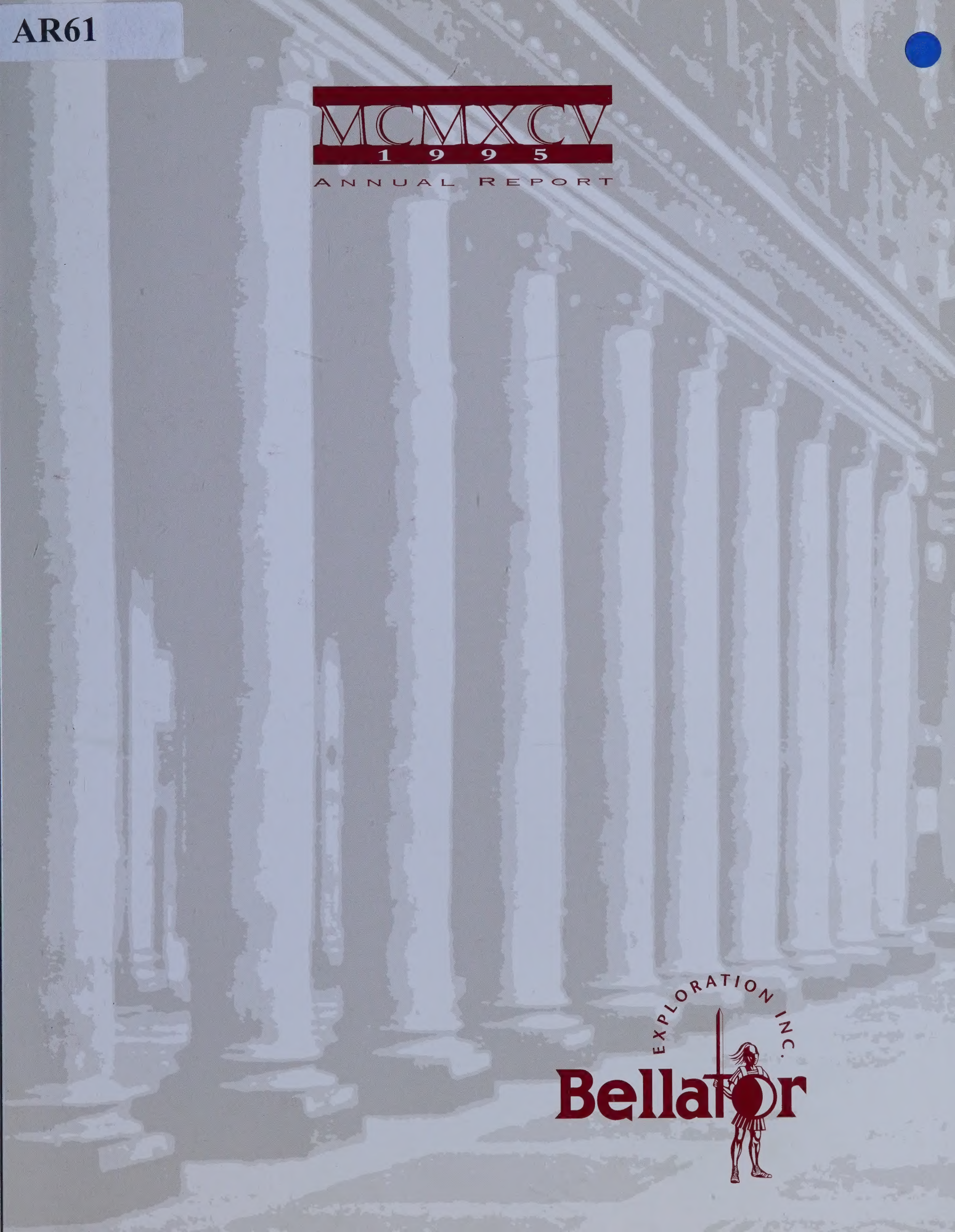
AR61



MCMXCV
1995
ANNUAL REPORT

EXPLORATION INC.

Bellator

Corporate Profile

Bellator Exploration Inc. is a growth oriented, Calgary based junior oil and gas company, engaged in exploration, acquisition and development of both oil and natural gas reserves in Western Canada.

The Company was originally incorporated in 1987. In 1993, a new management team revitalized Bellator and shifted the corporate focus to the oil and gas sector.

The corporation is committed to enhancing shareholder value through successful exploration and development programs, strategic acquisitions and the prudent management of financial resources.

Bellator is a public company listed on The Alberta Stock Exchange and trades under the symbol "BEX".

Cover

The word "Bellator" is Latin for warrior. This year's cover carries forward the theme of Roman antiquity first used in last year's report. The architectural pillars symbolized strength in Imperial Rome and act as a powerful metaphor for stability in the modern day.

Contents

Winspear Business Reference Room
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6

PRESIDENT'S MESSAGE

Nineteen ninety-five was a year of mixed results for Bellator Exploration Inc. While our financial results reflect the costs of a failed takeover bid of a private company, smaller acquisitions and solid resource and fiscal management helped Bellator emerge from fiscal 1995 as a much stronger corporate entity.

Review of 1995

In March 1995, Bellator announced that it had signed a Letter of Intent to acquire 100 percent of the shares of a private company whose principal asset was a 70 percent working interest in a CO_2 miscible flood project in Joffre, Alberta (the "Joffre Unit"). Subsequent to signing, Bellator also acquired undeveloped land and working interests in the Joffre area which are further described in the 1995 Operations Review.

In July 1995, negotiations for the acquisition of the private Company ceased. Although the acquisition was not completed, Bellator gained valuable knowledge about the project and acquired a significant land base in the Joffre area which will benefit shareholders in the future.

Also during 1995, Bellator acquired certain fee simple interests and participated in workovers on its Rosebank property which added to cash flow and enhanced the value of the asset.

Revenues for fiscal 1995, net of royalties, increased to $395,484 from the previous year's $297,630. The 32 percent increase was mainly attributable to the acquisition of certain fee simple interests which lowered royalties at our Rosebank property. Cash flow fell to $61,212 from 1994's $156,204 as a result of costs incurred during the attempted takeover. Bellator had a loss in net earnings of $140,173, following 1994's profit of $40,160.

In fiscal 1995, Bellator secured over $900,000 of financing through equity and convertible debenture issues. This funding, combined with responsible resource management, allowed Bellator to end the fiscal year in a strong financial position.

Entering 1996

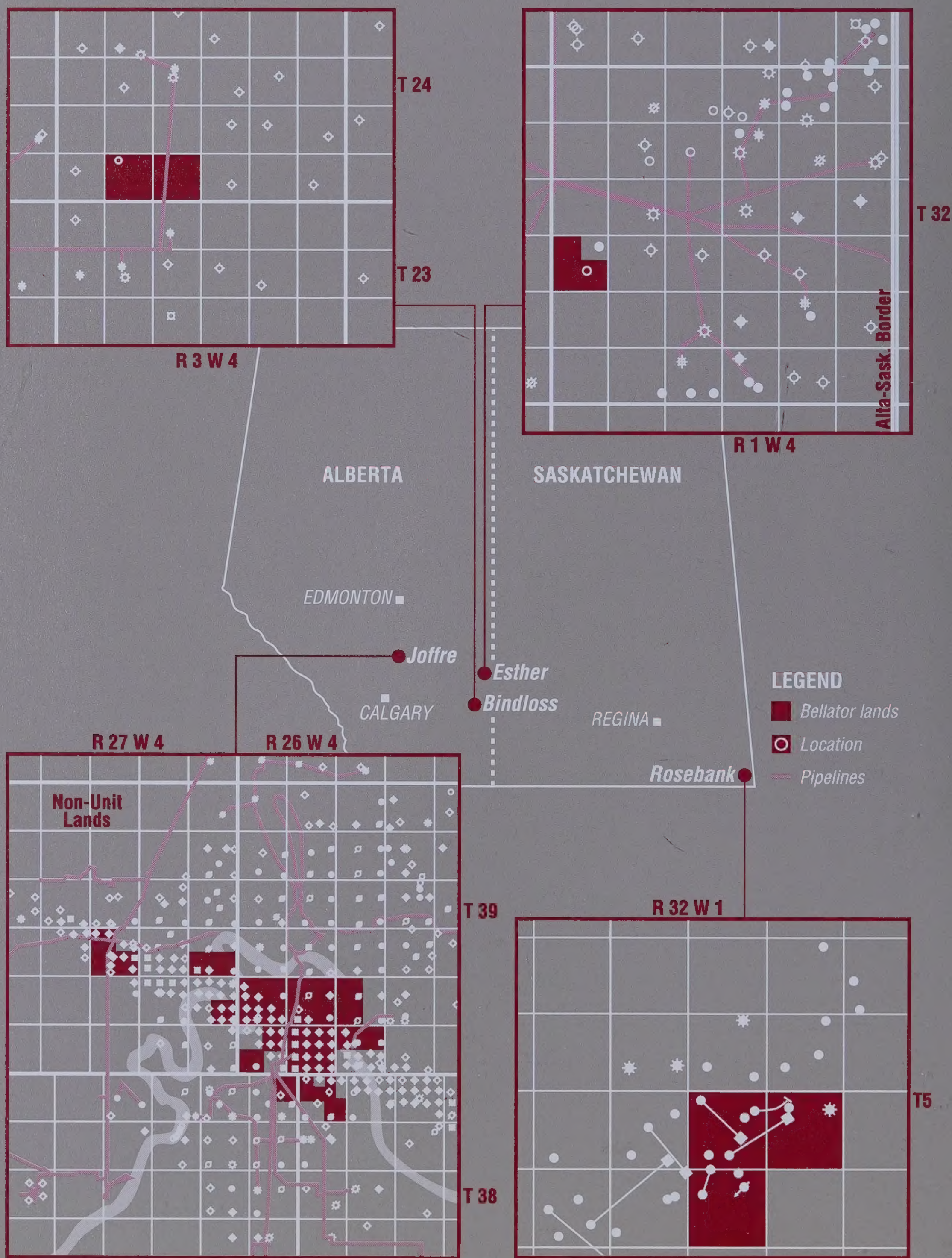
In fiscal 1996, Bellator will refocus its energy and concentrate on new projects. In particular, we will undertake an exploration program in East-Central Alberta, funded in part by an equity financing of $320,000 raised in the first quarter of fiscal 1996.

This area, which is described more fully in the Outlook for 1996, was selected for its multi-zone potential and low cost operations. Bellator believes that this area offers significant growth potential, while still maintaining corporate risk tolerance levels acceptable to the Board of Directors.

Bellator will continue to enhance its position in the Joffre area as opportunities arise, with a view to developing Joffre as a core area.

I would like to thank our shareholders and the Board of Directors for their support in the past year. We look forward to a prosperous 1996.

Robert J. Zakresky, CA
President
February 9, 1996


T 24
T 23
R 3 W 4
T 32
Alta-Sask. Border
R 1 W 4
ALBERTA
SASKATCHEWAN
EDMONTON
Joffre
Esther
Bindloss
CALGARY
REGINA
LEGEND
Bellator lands
Location
Pipelines
Rosebank
R 27 W 4
R 26 W 4
Non-Unit Lands
T 39
T 38
R 32 W 1
T5

1995 OPERATIONS REVIEW

During 1995, Bellator was able to conclude a number of small acquisitions which have increased the revenues and positioned the Company for future growth.

Rosebank Area, Saskatchewan Bellator's average daily production for fiscal 1995 averaged 58 barrels from 5 (1.5 net) producing oil wells in the Rosebank area. Effective January 1, 1995 the Company purchased a 33 1/3 percent Fee Mineral Interest in the property. This qualifies Bellator for the Saskatchewan Crown Mineral Tax Exemption, and increases the Company netback on production from the Rosebank property by approximately $3.50 per barrel at current oil prices. Existing production is expected to remain on a stable decline rate over the next few years however; there are a number of capital projects being planned by the operator to increase production levels.

Joffre Area, Alberta Although Bellator was unable to acquire operatorship of the Joffre Unit, the Company was successful in acquiring a small interest in the Joffre Unit through the purchase of Imperial Oil's 0.30786 percent working interest. This interest provides Bellator with access to all operational information regarding the property. Bellator's current share of production from the Joffre Unit is 2 barrels of oil per day.

In addition to the unit interest, Bellator was successful in acquiring approximately 4,100 (2,800 net) acres of land in the north end of the Joffre Viking oil pool, directly offsetting the Joffre Unit. We believe this acreage has tremendous potential for the expansion of the existing tertiary unit.

Reserves Bellator's estimated remaining proven reserves at Rosebank for the year ending September 30, 1995 were 156,000 barrels, with probable additional reserves of 55,000 barrels. The Company has not yet attributed reserves to the Joffre area.

OUTLOOK FOR 1996

In 1996, Bellator will focus on establishing two core areas for development. We believe this potential exists at Joffre as well as in East-Central Alberta. The Company has established a business plan which outlines various criteria for projects based on Corporate risk levels within specified core areas, enabling the Company to maximize its resources.

Exploration In the fourth quarter of 1995, the Company developed a plan to implement an exploration program in East-Central Alberta, an area characterized by shallow multi-zone prospects with potential for both oil and gas. Subsequent to year end, Bellator acquired the following two prospects within the new exploration focus area as described below.

Esther Area, Alberta In November 1995, Bellator entered into a Seismic Option agreement on three-quarters of a section in Township 32 Range 1 W4M. To date, the Company has shot four miles of seismic and has identified several potential drilling locations. The primary target for the Esther prospect is Bakken oil; however, there is also potential for shallow gas in the area. The first well in the Esther drilling program is expected to be completed in the second quarter of fiscal 1996 and depending on results, further locations are planned in 1996.

Bindloss Area, Alberta The Company signed a Seismic Option agreement in late November, 1995 on two sections of land in Township 24 Range 3 W4M. Bellator conducted a five mile seismic program and purchased five miles of trade data and has identified a location which is scheduled to be drilled in the second quarter of fiscal 1996. The primary target for the Bindloss prospect is Viking gas; however, the seismic program has also identified a number of leads on some deeper horizons which the Company will follow up in 1996.

Auditors' Report to Shareholders

We have audited the balance sheets of Bellator Exploration Inc. as at September 30, 1995 and 1994 and the statements of operations and deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 1995 and 1994 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Garrett Bauer

January 16, 1996

Chartered Accountants
Calgary, Alberta

Balance Sheet

	September 30 1995	1994
Assets		
Current assets:		
Cash	$ 711,465	$ 10,716
Accounts receivable	118,136	49,652
	829,601	60,368
Capital assets (Note 2)	1,628,901	1,482,117
	$ 2,458,502	$ 1,542,485
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accruals	$ 141,793	$ 48,352
Current portion of long-term debt	120,000	100,000
	261,793	148,352
Long-term debt (Note 3)	675,000	275,000
Provision for site restoration	12,610	5,111
Shareholders' equity:		
Share capital (Notes 4 and 6)	1,578,901	1,468,371
Contributed surplus	30,211	30,211
Deficit	(100,013)	(384,560)
	1,509,099	1,114,022
	$ 2,458,502	$ 1,542,485

Approved by the Board:

Director [signature] Director [signature]

Statement of Operations and Deficit

	Year Ended September 30 1995	1994
Revenue:		
Oil and gas, net of royalties	$ 395,484	$ 297,630
Expenses:		
Production	79,038	50,279
General and administrative	219,826	73,985
Interest on long-term debt	35,408	17,162
Depletion and depreciation	201,385	116,044
	535,657	257,470
Earnings (loss) before the following	(140,173)	40,160
Provision for income taxes (Note 5)	–	49,027
	(140,173)	8,867
Income tax reduction realized due to utilization of non-capital losses from prior years	–	49,027
Net earnings (loss)	(140,173)	40,160
Deficit, beginning of year	(384,560)	(424,720)
Reduction of stated capital (Note 6)	424,720	–
	40,160	(424,720)
Deficit, end of year	$ (100,013)	$ (384,560)
Earnings (loss) per share	$ (0.016)	$ 0.006

Statement of Changes in Financial Position

	Year Ended September 30	
	1995	1994
Cash provided by (used in)		
Operating activities:		
Earnings (loss)	**$ (140,173)**	$ 40,160
Item not affecting cash -		
Depletion and depreciation	**201,385**	116,044
	61,212	156,204
Net change in non-cash working capital	**24,957**	(199,938)
	86,169	(43,734)
Financing activities:		
Increase in long-term debt	**420,000**	375,000
Issuance of share capital	**535,250**	1,272,500
	955,250	1,647,500
Investing activities:		
Purchase of capital assets	**(340,670)**	(1,593,050)
Increase in cash	**700,749**	10,716
Cash, beginning of year	**10,716**	–
Cash, end of year	**$ 711,465**	$ 10,716

NOTES TO FINANCIAL STATEMENTS

September 30, 1995

1. Significant accounting policies

a) Petroleum and natural gas properties and equipment
The Company follows the full cost method of accounting whereby all costs of exploring for and developing oil and gas reserves are capitalized and charged against earnings as set out below. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges of non-producing properties, costs of drilling both productive and non-productive wells and overhead charges directly related to acquisition, exploration and development activities. These costs, together with the costs of production equipment, are depleted and depreciated on the unit-of-production method based on the estimated gross proved reserves as determined by independent petroleum engineers. Oil and natural gas reserves and production are converted into equivalent units based upon estimated relative energy content of ten thousand cubic feet of natural gas to one barrel of oil. The capitalized costs less accumulated depletion, depreciation and the provision for future removal and site restoration costs are limited to an amount equal to the estimated undiscounted future net revenue from proved reserves, based on year end prices, plus the cost (net of impairments) of unproved properties less estimated future removal and site restoration, general and administrative, financing and income tax costs. Proceeds from the sale of oil and gas properties are applied against capitalized costs,with no gain or loss recognized, unless such a sale would result in a change in the rate of depletion of 20% or more.

b) Office equipment
Equipment not directly related to the operations of the petroleum and natural gas interests is stated at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful life of five years.

c) Provision for site restoration costs
The estimated costs for future removal and site restoration, net of estimated salvage values, are provided for on the unit-of-production method. Estimated costs are based on engineering estimates in accordance with regulations in effect at year end. The annual charge is included in depletion and depreciation expense and actual site restoration expenditures are charged to the accumulated provision account as incurred.

d) Joint venture accounting
Substantially all of the Company's oil and gas activities are conducted jointly with others and accordingly these financial statements reflect only the Company's proportionate interest in such activities.

e) Earnings per share
Earnings per share has been calculated using the weighted average number of shares outstanding during the year.

2. Capital assets

	Cost	Accumulated Depletion and Depreciation	Net Book Value 1995	Net Book Value 1994
Oil and gas properties	$ 1,101,242	$ 172,153	$ 929,089	$ 804,150
Production equipment	804,013	125,688	678,325	667,769
Office equipment	28,465	6,978	21,487	10,198
	$ 1,933,720	$ 304,819	$ 1,628,901	$ 1,482,117

3. Long-term debt

	1995	1994
Term loan, payable under a demand production loan facility and bearing interest at 1 1/2% above prime. While the bank indebtedness is of a demand nature, the lender has agreed to accept monthly payments of $10,000 plus interest and is secured by a $2,000,000 fixed and floating debenture over all present and future property and guarantees by certain of the directors.	$ 440,000	$ 375,000
Debentures payable, unsecured, bearing interest at 10% (payable semi-annually), maturing on May 31, 1998. The debentures are convertible at the option of the holder (Note 4(e)).	355,000	--
	795,000	375,000
Less: amount due within one year	120,000	100,000
	$ 675,000	$ 275,000

Estimated principal repayments are as follows:

1996	–	$ 120,000
1997	–	$ 120,000
1998	–	$ 475,000
1999	–	$ 80,000

4. Share capital

a) Authorized
Unlimited voting common shares with no par value
Unlimited preferred shares

b) Issued and outstanding common shares

	1995		1994	
	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of year	8,121,750	$ 1,468,371	3,367,500	$ 226,082
Shares issued for cash	1,438,500	561,750	2,741,000	372,500
Share issue costs	–	(26,500)	–	–
Reduction of stated capital (Note 6)	–	(424,720)	–	–
Shares cancelled pursuant to an escrow agreement	–	–	(450,000)	(30,211)
Share consolidation (2:1)	–	–	(1,458,750)	–
Shares issued in acquisition of a private company	–	–	3,472,000	775,000
Shares issued in settlement of liabilities	–	–	450,000	125,000
Balance, end of year	9,560,250	$ 1,578,901	8,121,750	$ 1,468,371

c) Escrow shares
Of the 9,560,250 total issued shares, 500,003 (1994 - 750,000) are held in escrow and may not be traded without the written consent of the Director of the Alberta Securities Commission.

d) Stock options
Pursuant to the directors, officers, employees and consultants stock option plan, the Company has options outstanding as at September 30, 1995 totalling 880,000 common shares. Of these, 680,000 options entitle the holder to acquire one common share for $0.25 per share until September 30, 1998 and 200,000 options entitle the holder to acquire one common share for $0.40 until May 31, 2000.

In addition, a financial institution holds an option to purchase 5,000 common shares at $0.44 per share.

e) Convertible debentures
The debentures are convertible at the option of the holder at a conversion price of $0.50 per common share until May 31, 1996; $0.55 per common share from June 1, 1996 to May 31, 1997; and $0.60 per common share from June 1, 1997 to May 31, 1998.

Of the $355,000 debentures issued, $55,000 were issued to directors of the Company.

5. Income taxes
The provision for income taxes in the Statement of Operations varies from the amount that would be computed by applying the expected income tax rate of 44% to net earnings (loss) before income taxes. The reasons for the difference between such expected income tax expense (recovery) and the amount recorded are as follows:

	1995	1994
Expected income tax expense (recovery)	$ (61,676)	$ 17,791
Increase (decrease) in income taxes resulting from:		
Non-deductible crown charges	16,267	30,414
Depletion of non-tax base assets	79,416	28,210
Resource allowance	(83,965)	(24,443)
Tax benefit not recognized on current year losses	68,331	–
Other	(18,373)	(2,945)
	$ –	$ 49,027

The Company has non-capital losses carried forward from current and prior years that may be used to reduce future years' taxable income. These losses total $521,267 and expire in various years to 2002.

The potential benefits relating to the available losses have not been recognized in the accompanying financial statements.

A significant portion of the petroleum and natural gas interests have been acquired at a book value that is greater than their inherent tax values and as a result, incomes taxes may be payable sooner than would otherwise be the case and effective income tax rates may be higher than expected.

6. Reduction of stated capital
The stated capital of the Company was reduced by $424,720 on March 16, 1995 by way of shareholder resolution. The reduction has been recorded as a decrease to share capital and as a decrease to the deficit in the current year.

7. Contingency
The Company is subject to extensive environmental laws and regulations. These laws, which are constantly changing, include regulations covering the discharge of materials into the environment. The Company believes that it is in compliance with existing laws and regulations.

8. Subsequent events
Issuance of share capital.
In October 1995, the Company issued 26,000 common shares in settlement of a liability of $6,500.

In December, 1995 the Company issued 1,600,000 flow through common shares for total proceeds of $320,000.

Corporate Information

Officers and Directors
Robert J. Zakresky, CA
President and Director

Robert T. Jepson
V. P. Land and Director

Jordan M. Wilson, CA*
Director

Donald R. Jepson, P. Eng*
Director

Donald McMorland, P. Geol.
Director

Sean M. Monaghan, CA, CBV*
Director

* Member of the Audit Committee

Head Office
Suite 530
550 - Sixth Avenue S.W.
Calgary, Alberta T2P 0S2

Telephone: (403) 232 - 6533
Fax: (403) 269 - 1198

Bank
National Bank of Canada
Suite 600
407 - Eighth Avenue S.W.
Calgary, Alberta T2P 1E5

Registrar & Transfer Agent
The R-M Trust Company
Suite 600
333 - Seventh Avenue S.W.
Calgary, Alberta T2P 2Z1

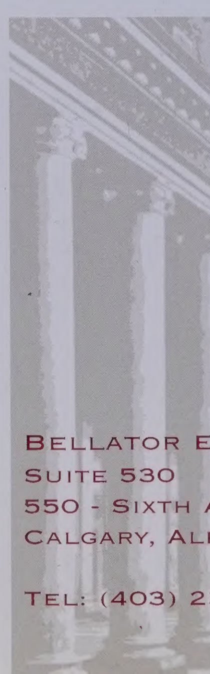
Legal Counsel
Ballem McDill MacInnes Eden
Suite 4000
150 - Sixth Avenue S.W.
Calgary, Alberta T2P 3Y7

Auditors
Garrett Power Chartered Accountants
Suite 311
1711 - Fourth Street S.W.
Calgary, Alberta T2P 1V8

Shares Listed
Alberta Stock Exchange
(Symbol "BEX")

Annual Meeting

The annual meeting of the shareholders will be held in the Board Room of Ballem McDill MacInnes Eden at 9:00 a.m. on Thursday, March 21, 1996 at Suite 4000, 150 - Sixth Avenue S.W., Calgary, Alberta.



BELLATOR EXPLORATION INC.
SUITE 530
550 - SIXTH AVENUE S.W.
CALGARY, ALBERTA T2P 0S2

TEL: (403) 232 - 6533